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# Bringing it all back home

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# Bringing it all back home

Published in Financial Times, 31 July 2008

Arnoud De Meyer and Matthias Holweg (University of Cambridge)

There seems little that can be positive for the UK manufacturing sector in oil prices above \$120 a barrel, rising costs of other natural resources, inflation and growing environmental pressure. But there may be a silver lining. Increased transport costs resulting from higher energy prices and carbon taxes may create an opportunity for a revival in western manufacturing.

Most strategic decisions in companies are influenced by new paradigms and globalisation was certainly the paradigm of the past decade. However, the application of such paradigms tends to behave like a pendulum swinging towards one extreme and eventually swinging back. Is it possible that the pendulum may swing back for manufacturing?

The premise of global sourcing and exploiting lower labour costs for manufacturing in eastern Europe and the Bric countries - Brazil, Russia, India, China - was largely built on the cost of transport, which dropped by a third between 1960 and the turn of the millennium. This was partly the result of the introduction of containers and the rise of third-party logistics providers, which can ship goods reliably from one end of the world to the other without owning any of the transport assets in between. Trade liberalisation and agreements helped, as did stable currencies that reduced the risks in establishing global supply lines.

Yet in our and others' research, we found that none of the companies that had gone global achieved the full cost efficiencies they had envisaged. Some even found that "offshoring" their operations was more expensive than sourcing or manufacturing locally, and subsequently returned to their home country. The cost of logistics may be a lot more important than originally estimated. In a recent interview with the Financial Times, Procter & Gamble management claimed that the company's storage and transport costs are currently higher than the operating expenses of its factories. Others found that product cost was indeed much lower, yet this cost reduction was traded off with much-reduced quality. Recent highly publicised product recalls are but the tip of an iceberg.